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REHEARING JUL 2 2 2002

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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

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AZ CORP COMMISSION
JUL 2 2002

IN THE MATTER OF INVESTIGATION) DOCKET NO. T-00000A-00-0194
 INTO U S WEST COMMUNICATIONS,)
 INC.'S COMPLIANCE WITH CERTAIN) APPLICATION FOR
 WHOLESALE PRICING REQUIREMENTS) REHEARING OF AT&T AND
 FOR UNBUNDLED NETWORK) XO OF PHASE II OPINION AND
 ELEMENTS AND RESALE DISCOUNTS) ORDER
)

AT&T Communications of the Mountain States, Inc. ("AT&T") and XO Arizona, Inc. ("XO") submit this Application for Rehearing of the Commission's Phase II Opinion and Order (Docketed June 12, 2002) ("Order").

By way of this Order, the Commission has taken an important step toward making unbundled network elements a viable strategy for broad-based competitive entry in Arizona. AT&T and XO appreciate the Commission's efforts to establish prices that are consistent with the Federal Communications Commission's ("FCC's") total element long-run incremental cost ("TELRIC") requirements. On balance, the Order is sound, consistent with state and federal law, and is supported by the record.

In this Application for Rehearing, AT&T and XO seek clarification or reconsideration of a few conclusions reached by the Commission that are either not consistent with TELRIC principles or are not supported by the best evidence in the

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record. These conclusions, if not reconsidered and revised, threaten to undermine the development of effective local exchange competition in Arizona.

DISCUSSION

A. The Commission Should Revise Its Determination on Utilization (Fill Factors) for High Capacity Loops.

The Commission amended the Recommended Opinion and Order to use Qwest's proposed utilization rates for high capacity loops, rather than the fill factor of 85% for the electronics used to provision DS1 and DS3 loops that AT&T and XO proposed.

Amendment 2. The Commission made this adjustment after Qwest claimed that the fill factors adopted in the Recommended Opinion and Order are based on a "hypothetical" network and that the Eighth Circuit had found such cost estimates to be inconsistent with federal law. The Supreme Court, however, subsequently overruled the Eighth Circuit and reaffirmed the FCC's TELRIC methodology. *Verizon Communications, Inc. v. FCC*, 122 S. Ct. 1646 (2002). To the extent that the Commission adopted Qwest's proposed fill factors pursuant to concerns arising out of the Eighth Circuit's opinion, therefore, the Commission should reconsider its decision in light of the Supreme Court's ruling.

Qwest's proposed fill factors are not consistent with the TELRIC principles the Supreme Court upheld. Qwest uses optical equipment to provision high capacity loops. Qwest cost studies assume that its equipment is fully deployed, including all line cards and other "plug-in" components. In the OC3 architecture, for example, Qwest assumes that the optical equipment is fully equipped to provide 84 DS1 circuits even though it is only being used to provide 31 DS1s. An efficient, forward-looking provider would minimize its costs and would outfit its equipment with only the line cards and other material necessary to serve the anticipated demand. Contrary to these TELRIC

principles, Qwest has inflated its cost estimates by using inconsistent assumptions – a low fill factor and fully deployed equipment.

Qwest's proposed fill factors for DS3 loops, moreover, are even lower than they appear. Qwest claimed that its cost estimates for high capacity loops are based on various architectures that are weighted to reflect different levels of demand. Qwest's DS3 model documentation describes eight design architectures to provision DS3 circuits with no one configuration having a weighting over 50%. The cost study itself, however – which actually produces the costs on which Qwest bases its proposed rates – assumes only a single design architecture. Not surprisingly, that architecture has the highest costs and the lowest fill factor resulting in inflated costs. Again, Qwest has inflated its cost estimate by assuming that Qwest will use a single architecture for provisioning all DS3 facilities, even if such an architecture is not the least cost solution based on the anticipated demand.

The Commission, therefore, should reconsider its approval of such inconsistencies either by applying an 85% fill factor to the fully deployed equipment, regardless of the type of architecture used, or requiring Qwest to reduce its equipment prices to reflect deployment of only those facilities needed to serve the anticipated demand and requiring Qwest to revise its DS3 model to reflect the assumptions in the model documentation.

B. The Commission Should Revise and Clarify Its Determinations on Qwest's Non-Recurring Charge Cost Estimates and Rate Structure.

The Order concludes its discussion of non-recurring costs ("NRCs"), "While we believe that the CLEC-sponsored NRC model generally recognizes the efficiencies that will occur in a forward-looking environment and we will adopt the CLEC model in this proceeding, we will adopt Staff's recommended costs and charges, as stated in its rebuttal

testimony, for the following: basic loop installation, coordinated loop installations with or without testing and the provision of the UNE platform over lines not currently in use.”

The Commission provides no explanation of why it adopted Staff’s proposal on these NRCs, nor does Staff’s testimony explain why such an adjustment is appropriate. The Commission should reconsider its decision on this issue.

The CLEC NRC model captures all of the costs that an efficient provider will incur on a forward-looking basis to provision UNEs, including unbundled loops and the UNE platform. The Commission generally agreed but singled out loops and the UNE platform and revised those NRCs to include 61% of the costs that Qwest estimates it incurs to provide these elements – substantially more than the CLEC model estimates. Without a sufficient evidentiary basis for making an adjustment to the CLEC NRC model, the Commission should reconsider its adjustment and adopt the cost estimates developed in the CLEC NRC Model in their entirety.

Even if the Commission adheres to its determination on this issue, the Commission should clarify that Qwest must charge separately for connection and disconnection of these UNEs. The CLEC NRC model establishes separate connect and disconnect charges based on the principle that a CLEC should not be required to pay Qwest for service until the CLEC requests that service. If Qwest does not incur disconnect costs upon installation, Qwest is not entitled to compensation for those costs, which may not be incurred for years, if ever. The Commission adopted this principle when it adopted the CLEC NRC model. Qwest, however, has filed NRC rates ostensibly in compliance with the Order which establish only a single charge for each of the NRCs that the Commission established separately from the CLEC NRC model, which includes

costs Qwest allegedly will incur upon disconnection. The Order does not address this issue directly but should be revised to do so and to require Qwest to file separate connect and disconnect charges for each NRC, regardless of the model that is used to produce the NRCs.¹

C. The Commission Should Reconsider Its Decision Not to Accept the Exceptions That AT&T and XO Made to the Recommended Opinion and Order.

AT&T and XO generally supported the Recommended Opinion and Order prepared by the Administrative Law Judge ("ALJ") but provided the Commission with a few exceptions to the ALJ's recommendations that did not reflect the weight of the evidence. The Commission, however, did not incorporate AT&T's and XO's concerns on these issues into the Order and accordingly, AT&T and XO continue to take the position that the Commission's determinations on these issues do not fully comply with TELRIC principles or the record evidence. These determinations are as follows:

1. The Order adopts structure sharing assumptions that, while reduced from those proposed by Qwest, still fail to reflect the extent of structure sharing likely in a forward-looking environment;
2. The assumptions of the Order with respect to the use of aerial plant fail to reflect the amount of aerial plant that would be placed in a least-cost analysis;
3. The drop length adopted by the Order is inappropriately long, leading to increased cost estimates for the unbundled loop;

¹ Qwest's NRC model is designed with a separate calculation for installation costs and a separate calculation for disconnect costs. These are then added together, resulting in a combined NRC including installation and disconnection costs. Therefore, it is a simple process for Qwest to provide separate disconnect rates from its NRC model.

4. The Order adds unwarranted grooming costs to the unbundled loop rate;
5. The network operations expense adopted in the Order fails to reflect cost savings available to Qwest in a forward-looking environment;
6. The Order inappropriately permits Qwest to charge for field verification of conduit occupancy when the necessary information should be available from a review of Qwest's own records;
7. The Order adopts charges for loop conditioning that are not necessary in a forward-looking environment; and
8. The loop conditioning charges adopted in the Order are excessive and permit Qwest to charge more for loop conditioning in some circumstances than Qwest itself has proposed to charge.


Each of these issues is described more fully in the Exceptions of AT&T and XO to Phase II Recommended Opinion and Order (Dec. 17, 2001), a copy of which is attached to this Application. AT&T and XO will not repeat those arguments here but incorporate them by reference as if fully set forth herein. AT&T and XO request that the Commission review these exceptions and revise the Order to incorporate AT&T's and XO's concerns.

CONCLUSION

AT&T and XO appreciate the Commission's efforts to establish reasonable rates in this docket, but urge the Commission to reexamine or clarify its determinations discussed above to more properly reflect TELRIC principles, the record, and the public interest in Arizona.

Dated this 2nd day of July 2002.

**AT&T COMMUNICATIONS OF THE
MOUNTAIN STATES, INC.**

By: 
Richard S. Wolters
1875 Lawrence Street, #1503
Denver, Colorado 80202
303-298-6741 Phone
303-298-6301 Facsimile
rwolters@att.com E-mail

Greg Kopta
DAVIS WRIGHT TREMAINE LLP
1501 Fourth Avenue
2600 Century Square
Seattle, WA 98101-1688
206-628-7772
206-628-7699 (Facsimile)

Attorneys for AT&T of the Mountain
States, Inc.

CERTIFICATE OF SERVICE

I hereby certify that the original and 10 copies of Application for Rehearing of AT&T and XO of Phase II Opinion and Order, regarding Docket No. T-00000A-00-0194, were hand delivered this 2nd day of July, 2002, to:

Arizona Corporation Commission
Docket Control – Utilities Division
1200 West Washington Street
Phoenix, AZ 85007

and that a copy of the foregoing was hand-delivered this 2nd day of July, 2002 to the following:

Ernest Johnson
Director - Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Maureen Scott
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Lyn Farmer
Chief Hearing Officer
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Dwight D. Nodes, ALJ
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

and that a copy of the foregoing was sent via United States Mail, postage prepaid, on the 2nd day of July, 2002 to the following:

Timothy Berg
Fennemore Craig, P.C.
3003 North Central Ave.
Suite 2600
Phoenix, AZ 85012
Attorneys for Qwest

Janet Livengood
Z-TEL Communications, Inc.
601 South Harbour Island
Suite 220
Tampa, Florida 33602
Attorneys for Z-Tel Communications, Inc.

Steve Sager, Esq.
McLeod USA Telecommunications
Service, Inc.
215 South State Street, 10th Floor
Salt Lake City, Utah 84111
Attorneys for McLeod USA

Ray Heyman
Roshka Heyman & DeWulf
400 North 5th Street
Suite 1000
Phoenix, AZ 85004
Attorneys for Alltel Communications

Michael W. Patten
Roscoe Heyman & DeWulf
400 North 5th Street
Suite 1000
Phoenix, AZ 85004
Attorneys for Cox, e-spire, McLeod USA,
Teligent, Z-Tel, MGC Communications

Dennis Ahlers
Echelon Telecom, Inc.
730 Second Avenue South
Suite 1200
Minneapolis, MN 55402
Attorneys for Echelon Telecom, Inc.

Thomas F. Dixon
WorldCom, Inc.
707 17th Street
Suite 3900
Denver, CO 80202
Attorneys for WorldCom

Darren S. Weingard
Stephen H. Kukta
Sprint Communications Co.
1850 Gateway Drive
7th Floor
San Mateo, CA 94404-2647
Attorneys for Sprint

Steven J. Duffy
Ridge & Isaacson, P.C.
3101 North Central Avenue
Suite 1090
Phoenix, AZ 85012-2638
Attorneys for Sprint

Penny Bewick
New Edge Networks
P.O. Box 5159
3000 Columbia House Blvd.
Vancouver, Washington 98668
Attorneys for New Edge

Marti Allbright, Esq.
MPOWER Communications Corporation
5711 South Benton Circle
Littleton, CO 80123
Attorneys for MGC Communications

Thomas H. Campbell
Lewis & Roca LLP
40 N. Central Avenue
Phoenix, AZ 85004
Attorneys for Rhythms Links, Inc., Time
Warner, WorldCom, Echelon Telecom,
Allegiance

John Connors
WorldCom, Inc.
Law and Public Policy
707 17th Street, Suite 3600
Denver, CO 80202
Attorney for WorldCom

Eric Heath
Sprint Communications
100 Spear Street
Suite 930
San Francisco, CA
Attorneys for Sprint

Megan Doberneck, Senior Counsel
Nancy Mirabella, Paralegal
Covad Communications Company
4250 Burton Drive
Santa Clara, CA 95054
Attorney for Covad

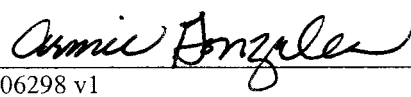
Michael M. Grant
Gallagher and Kennedy
2575 E. Camelback Road
Phoenix, AZ 85016-9225
Attorneys for ELI, Covad, New Edge

Michael B. Hazzard
Kelley Drye and Warren
1200 19th Street, NW
Washington, DC 20036
Attorneys for Z-Tel Communications

Scott S. Wakefield
RUCO
2828 N. Central Avenue
Suite 1200
Phoenix, AZ 85004

Andrea Harris
Allegiance Telecom
2101 Webster
Suite 1580
Oakland, CA 94612

Kevin Chapman
SBC Telecom, Inc.
300 Convent Street, Room 13-Q-40
San Antonio, TX 78205


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ATTACHMENT

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BEFORE THE ARIZONA CORPORATION COMMISSION

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WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

AZ CORP COMMISSION
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IN THE MATTER OF INVESTIGATION)
INTO U S WEST COMMUNICATIONS,)
INC.'S COMPLIANCE WITH CERTAIN)
WHOLESALE PRICING REQUIREMENTS)
FOR UNBUNDLED NETWORK)
ELEMENTS AND RESALE DISCOUNTS)

DOCKET NO. T-00000A-00-0194
EXCEPTIONS OF AT&T OF THE
MOUNTAIN STATES, INC. AND XO
ARIZONA, INC. TO PHASE II
RECOMMENDED OPINION AND
ORDER

I. INTRODUCTION

The Recommended Opinion and Order ("RO&O") now before this Commission in many respects strikes a reasoned balance in determining the rates that Qwest may charge competitors for interconnection and unbundled network elements. By adopting the RO&O, the Arizona Corporation Commission would join several other states recognizing that unbundled network element rates must be reduced to comply with TELRIC pricing principles.¹ As the National Association of Utility Commissioners recently resolved, terms and conditions for network elements that permit competitive entry are in the interest of consumers.² The RO&O represents a

¹ For example, New Jersey, California and Ohio have issued orders within the last few months substantially reducing network element rates. See *Joint Application of AT&T and WorldCom for the Commission to Reexamine the Recurring Prices of Unbundled Elements*, Application No. 01-02-024, Ruling on Motion for Interim Relief (September 28, 2001) (Cal. Pub. Util. Comm'n.); *In the Matter of the Review of Ameritech Ohio's Economic Costs for Interconnection, Unbundled Network Elements and Reciprocal Compensation*, Case No. 96-922-TP-UNC, Opinion and Order (October 4, 2001) (Ohio Pub. Util. Comm'n); Press Release issued November 20, 2001 by the New Jersey Board of Public Utilities regarding 38% decrease in UNE-P rates (available at www.bpu.state.nj.us).

² Resolution Concerning the UNE-Platform, adopted November 14, 2001.

substantial step toward developing rates that will permit competition to develop in Arizona's local telecommunications markets.

For these reasons, AT&T Communications of the Mountain States, Inc. ("AT&T") and XO Arizona, Inc. ("XO") support most of the decisions made in the RO&O. There are few issues, however, on which the RO&O does not reflect the weight of the evidence. In addition, there are certain rates and other matters placed at issue in this proceeding that are not addressed in the RO&O. These exceptions address AT&T's and XO's concerns regarding recurring and nonrecurring charges for most of the unbundled network elements at issue. In addition, AT&T and XO join with WorldCom, Inc. in its exceptions regarding collocation and information services.

II. SUMMARY OF EXCEPTIONS

AT&T and XO take exception to the following aspects of the RO&O:

1. The RO&O adopts structure sharing assumptions that, while reduced from those proposed by Qwest, still fail to reflect the extent of structure sharing likely in a forward-looking environment.
2. The assumptions of the RO&O with respect to the use of aerial plant fail to reflect the amount of aerial plant that would be placed in a least-cost analysis.
3. The drop length adopted by the RO&O is inappropriately long, leading to increased cost estimates for the unbundled loop.
4. The RO&O improperly adds unnecessary grooming costs to the unbundled loop.
5. The network operations expense adopted by the RO&O fails to reflect cost savings available to Qwest in a forward-looking environment.

6. The RO&O inappropriately permits Qwest to charge for field verification of conduit occupancy when the necessary information should be available from a review of Qwest's own records.

7. The RO&O inappropriately adopts charges for loop conditioning that should not be necessary in a forward-looking environment.

8. The loop conditioning charges adopted by the RO&O are excessive and would permit Qwest to charge more for loop conditioning in some circumstances than Qwest itself has proposed.

9. The RO&O fails to establish pricing for high capacity loops, transport and multiplexing, among other elements.

III. DISCUSSION

A. Recurring Costs.

1. In General.

The parties to this proceeding proposed several different cost models for the purpose of generating the recurring costs for interconnection and unbundled network elements. For the pricing of the unbundled analog DS0 loop, Qwest proposed the Loop Module ("LoopMod"), component of its Integrated Cost Model ("ICM").³ WorldCom, AT&T, and XO (together, the "Joint Intervenors") relied upon the HAI Model 5.2a.⁴ Staff of the Commission also relied on the HAI Model for unbundled analog loop pricing.

³ The ICM includes four other components. The Switching Module produces investment for switch-related UNEs. The Transport Module produces transport investment. The separate Capital Cost and Expense Factors Modules convert investment to a monthly cost and add overhead and other expenses to the investment calculation.

⁴ AT&T also proposed the HAI Model for use in determining unbundled switching costs. Switching issues have been deferred to a subsequent phase of this proceeding.

In addition to the ICM, Qwest presented a number of stand-alone cost models for elements such as high capacity DS1 and DS3 loops, multiplexing and collocation. Because of the cost and complexity of developing cost models, as well as the difficulty in obtaining pricing information from any source other than Qwest, the Joint Intervenor did not present their own recurring cost models for high capacity loops or collocation. Instead, the Joint Intervenor proposed that the Qwest cost studies should be modified to more closely reflect forward-looking cost principles. The Joint Intervenor also modified the Qwest studies in proposing pricing for transport and multiplexing rate elements. The Joint Intervenor presented testimony that the investment, fill factors, installation factors and expense factors assumed by the Qwest models exceed the levels that should be used in a TELRIC analysis. The Joint Intervenor recommended that these inputs be revised to bring the models closer to TELRIC.

The RO&O properly finds that Qwest has based its models “primarily upon its embedded network and costs . . . [failing] to adequately incorporate efficiencies that should be recognized in a TELRIC environment. RO&O at 11. In contrast, the HAI Model 5.2a “properly recognizes the TELRIC methodology that is required for assessing Qwest’s costs and UNE prices.” *Id.* In the detailed exceptions below, AT&T and XO discuss changes made by the RO&O to inputs and assumptions of the HAI Model that have the result of increasing loop prices above TELRIC. The combined effect of the changes discussed below is to increase the statewide average loop price by more than 20% from the proposal made by the Joint Intervenor in this proceeding.⁵ This increase falls outside any reasonable range of TELRIC.

⁵ The parties have not been able to agree upon the proper methodology for implementing some of the changes to the HAI Model required by the RO&O. Under the methodology now proposed by Qwest, the increase would actually be more than 40%, to a \$14.55 statewide average loop rate.

Perhaps based upon a belief that the HAI Model proposed by the Joint Intervenor produced recurring costs for all unbundled elements, the RO&O does not appear to fully address the methodology to be adopted in pricing certain elements, including high capacity loops, transport, and multiplexing. Pricing these elements has been fully litigated in this proceeding. As will be discussed in more detail below, the Joint Intervenor request that a supplemental order be issued addressing pricing issues with respect to these elements.

2. Unbundled Analog Loop.

The RO&O proposes several changes in the inputs to the HAI Model that increase the pricing of the unbundled analog DS0 loop. AT&T and XO agree that one of the proposed changes, a change in the depreciation rate for drops, NIDs and SAIs, is supported by the record. AT&T and XO have no exception to this change. Other changes to the HAI inputs made by the RO&O do not have sufficient support in the record. In argument below, AT&T and XO describe the changed inputs and the reasons that those inputs should not be adjusted in determining pricing for the unbundled analog loop.

a. Sharing Assumptions.

The HAI Model assumes that outside plant facilities can be shared among the local exchange company, cable operators, electric utilities and other utilities, including CLECs and interexchange carriers. *See* RO&O at 12. The assumptions used in the model as filed by the Joint Intervenor are that sharing will vary with density and with the structure at issue, and that overall, an incumbent carrier will pay about 40% of the overall structure cost. The RO&O, in contrast, proposes that the 50% sharing assumption for all plant types adopted by the Commission's prior cost order, Decision No. 60635, should be used in this proceeding.

The Joint Intervenor presented substantial evidence that an ILEC would be likely to pay less than 50% of the cost of placing outside plant overall on a forward-looking basis. Arizona is a high-growth market. As Qwest admits, in a high-growth market, there may be “a dramatic amount of developer-provided shared trench.” Tr., p. 186 (Qwest witness Buckley). When a property developer provides the trench, Qwest pays nothing for that trench structure. *Id.* This substantially lowers the overall cost to Qwest for placing facilities. Numerous other sharing opportunities also exist, such as placing inter-office and loop facilities in the same conduit or trench structure, or placing excess capacity for future use. *See* Ex. AT&T/WorldCom 3 (Denny Direct) at pp. 40-42; Ex. DKD-3.

The sharing percentage assumption adopted by the RO&O does not reflect all of the potential sharing available in a forward-looking environment. The effect of the RO&O’s change to the Model’s sharing assumptions is a 5.3% increase in the state-wide average loop rate. For this reason, the Joint Intervenor request that the RO&O be revised to reflect the sharing assumptions set forth in the HAI Model 5.2a as filed.

b. Plant Mix.

As described in the RO&O, the term “Plant Mix” “refers to the relative percentage of facilities that are buried, placed in underground conduit, and placed on telephone poles.” Qwest contends that the actual percentage of aerial plant in its Arizona network is 19 to 20%. Tr., p. 140 (Qwest witness Buckley). In fact, Qwest’s actual aerial percentage in distribution is 36.5% if all forms of aerial placement are included. *See* Ex. AT&T/WorldCom 5 (Denney Summary). The HAI Model as filed by the Joint Intervenor assumes approximately 29% aerial plant in distribution, including both aerial outside plant and building cable. *Id.*

The aerial cable ratio of 19% used by the RO&O does not take into account aerial plant placed as building cable. *Id.* In addition, the RO&O fails to consider the least-cost approach taken by the HAI Model as filed by the Joint Intervenors. The Model develops the percentage of aerial cable by considering both the cost of placing aerial plant and the cost of maintaining that plant. Tr., pp. 1436-37. The RO&O should accept this least-cost aerial percentage developed by the Model.

c. Drop Lengths.

The drop is the portion of the outside plant that extends from a distribution terminal to the actual customer location. The statewide average drop length proposed by Qwest in this proceeding was approximately 110-120 feet. See Qwest Ex. 1 (Buckley Direct) at RJB-3, p. 3. The RO&O reduced the Qwest proposal to some extent, recommending 90 feet as the appropriate statewide average drop length for use in the HAI Model.

The Qwest proposal was based on a survey of drop lengths in other states that ignores drops to all multi-tenant dwellings. As such, even Qwest admits that the survey cannot be used as a basis for drop lengths to be input into the HAI Model. Tr., pp. 151-52 (Qwest witness Buckley). The HAI Model does include drops from multi-tenant dwellings. The survey is also flawed in that it does not include any actual measurements of drop lengths in any state and does not even include estimates of drop lengths for the State of Arizona. Tr., pp. 149-50 (Qwest witness Buckley).

For these reasons, the RO&O should reflect a much greater adjustment to the Qwest proposed numbers than that adopted. As the RO&O itself recognizes, the Qwest study's failure to include multi-tenant units significantly reduces the result of the drop length average. *See*

RO&O at 18. The RO&O's failure to make a more significant adjustment based on this flaw is an error in the proposed order.

d. Network Operations Expense.

As indicated by the RO&O, the HAI Model uses a network operations factor to calculate the expenses associated with providing network administration, testing, plan operations, administration, and engineering. The record in this proceeding demonstrated that forward-looking technologies necessarily lead to reductions in network operations expenses. For example, the deployment of SONET-based transport lessens the likelihood of outages, which in turn lessens network administrations expenses. *See* Ex. AT&T/WorldCom 3 (Denny Direct) at Ex. DKD-C (Appendix D). The very reason for deploying forward-looking technologies like SONET is to realize the significant operational savings associated with such technologies.

In developing a factor for network operations, the HAI Model reduced Qwest's actual expenses as reported in ARMIS by 50%. This reduction recognizes both the savings available through forward-looking technologies as well as the removal of retail expenses that are not appropriately applied to wholesale network elements under TELRIC pricing principles. *Id.* The resulting per-line expense of \$1.39 per month corresponds closely to the \$1.48 per line per month network operations expense adopted by the FCC in reviewing this issue in its universal service proceeding. *See In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, FCC 99-304, 10th Report and Order (rel. Nov. 2, 1999) at ¶ 382, n.1218; Ex. AT&T/WorldCom 5 (Denny Rebuttal).

The RO&O adopts an 85% network operations factor. This increase in the factor proposed by the Joint Intervenors results in a per-line network operations cost of approximately \$2.36, far above the amount that the FCC found appropriate for a forward looking network. This

change alone creates a 7.9% increase in the analog loop price. Given the substantial cost savings associated with a forward-looking network, along with the need to remove retail-related expenses from the Qwest actual costs, the 85% factor adopted by the RO&O insufficiently captures the efficiencies associated with TELRIC methodology. On this basis, AT&T and XO request that the RO&O be revised to adopt the 50% network operations factor proposed by the Joint Intervenors in this proceeding.

e. Grooming Charge.

Qwest's analog loop cost study develops the cost of providing an unbundled loop and then adds investment which Qwest contends reflects costs that would be incurred to provide an unbundled loop carried on an integrated digital loop carrier ("IDLC") to a competing carrier. In the Qwest cost study, Qwest assumes that 44% of the loops would be carried on IDLC. Qwest calculated the cost of unbundling IDLC loops based on this 44% assumption and then spread the cost over all loops, requesting a recurring "unbundling charge" of \$1.60 per loop.

This Commission determined in Decision 60635 that the HAI Model included costs associated with grooming. On this basis, the Commission rejected Qwest's proposed grooming charge. Decision 60635 at pp. 24-25. In this proceeding, the Joint Intervenors have also presented evidence that, on a forward-looking basis, it is efficient to assume that CLECs would purchase loops in a fully integrated DLC system which would be fed directly into the CLEC switch without the need for demultiplexing at the central office. See Ex. AT&T/WorldCom 8 (Weiss Direct) at 32. For this reason, Qwest's proposed grooming charge is unnecessary and anticompetitive. This Commission should accept its prior determination and reject any added charge for grooming of unbundled loops carried on IDLC.

2. Other Recurring Rates.

AT&T and XO join in WorldCom's exceptions with respect to both recurring and nonrecurring rates for collocation and information services. In addition, all switching-related recurring charges have been deferred to Phase IIA of this proceeding. There are other network elements at issue in this proceeding, however, for which the RO&O does not provide a method of calculation. These include 4-wire loops, high capacity loops, transport, and multiplexing. AT&T and XO request that the Administrative Law Judges issue a supplemental RO&O addressing these issues.⁶

a. 4-Wire Loops.

In Decision No. 60635, the Commission determined that "placing a 4-wire loop should not be significantly more expensive than placing a 2-wire loop." Decision No. 60635 at pp. 23-24. For this reason, the Commission determined that the charge for 4-wire loops should be 4.2% higher than that for a 2-wire loop. In this proceeding, as in the prior cost docket, Qwest recommended that the price for a four-wire loop should be almost double that of a two-wire analog loop. *See Ex. WorldCom 1.* The Joint Intervenors proposed that the price should be 1.3 times that of a two-wire loop, recognizing that there are some additional costs that are required when a two wire loop is placed.

The RO&O in this proceeding does not indicate how the price for a 4-wire loop should be determined going forward. AT&T and XO propose that the Commission adopt the 1.3 differential proposed by Joint Intervenors in this proceeding.

⁶ AT&T and XO have summarized their positions on these elements in the exceptions below. More detailed argument on these issues and on issues relating to other elements is found in the post-hearing briefs filed by AT&T and XO.

b. High Capacity Loops.

Like Qwest's ICM, the HAI Model introduced by the Joint Intervenor for the purpose of calculating unbundled analog loop charges does not price high capacity DS-1 and DS-3 loops. Because of the cost and complexity of developing cost models, the Joint Intervenor did not present their own pricing model for high capacity loops. Instead the Joint Intervenor proposed revisions to the Qwest high capacity loop model to bring that model in line with TELRIC assumptions.

The RO&O does resolve certain issues with respect to high capacity loops. For example, the overhead, network operations and general support factors adopted by the RO&O can be adjusted to apply to Qwest's cost models. This will involve reducing the Qwest expense factors to bring them in line with the expenses used in the HAI Model.

The RO&O does not, however, make determinations regarding the adjustments to the Qwest models proposed by the Joint Intervenor. Qwest has admitted that its high capacity loop models must be adjusted to provide forward-looking pricing. Tr., p. 862. Because Qwest based its investment calculations on 1999 contract prices rather than lower contract prices it has obtained since that time, Qwest is now revising its models in other jurisdictions to propose lower high capacity loop pricing. The Joint Intervenor presented evidence of Qwest's failure to use current pricing during the course of the hearing in this matter. See Tr., p. 862; AT&T/XO Exs. 22, 33. The Joint Intervenor also presented evidence that Qwest's installation factors and utilization factors improperly inflate the prices it has proposed for these elements. See Ex. ATT/WorldCom 6 (Weiss Direct) at 45-59.

For these reasons, AT&T and XO request that a supplemental RO&O be issued resolving the changes that must be made to the Qwest high capacity loop cost studies to bring those studies

closer to TELRIC. This order should resolve the need to re-run the models using current pricing and installation and utilization factors that comply with TELRIC's least cost, most efficient network assumptions.

c. Transport.

Although the HAI Model does produce pricing for some transport elements, the Joint Intervenor did not present the model for that purpose in this proceeding. The HAI Model output provides fixed pricing for DS0, DS1 and DS3 transport elements. In contrast, Qwest's pricing proposal included both a fixed and a per-mile charge for transport. To correspond with the Qwest proposed rate structure, the Joint Intervenor proposed adjusting the Qwest model rather than using the HAI Model for calculating transport pricing. *See* Ex. AT&T/WorldCom 6 (Weiss Direct) at 71-74; *see also* AT&T/XO Post-Hearing Brief at 25-27. Neither the Joint Intervenor nor any other party proposed the HAI Model for use in calculating transport pricing and no issues with respect to the model's transport pricing calculations were litigated.

Qwest agrees that high capacity OC3 and OC12 transport pricing issues are not determined by the RO&O. Qwest apparently takes the position, however, that the RO&O establishes transport pricing by adopting the HAI Model for use in calculating pricing of the analog loop. None of the model input assumptions addressed by the RO&O, however, relate to the transport pricing calculated by the HAI Model. All of those assumptions, in contrast, relate only to pricing of the analog loop. Given that the Joint Intervenor have stated at all times that they do not propose use of the HAI Model for transport pricing, Qwest's contention must be rejected. The HAI Model's transport assumptions are not part of the record in this case.

AT&T and XO have presented evidence that the transport pricing generated by the Qwest cost model is overstated. Because the same types of facilities are used for transport as are used in

providing high capacity loops, Qwest's models use the same outdated pricing, in developing investment as the high capacity loop model does. The transport model also uses installation, utilization and expense factors that fail to reflect TELRIC requirements. For these reasons, AT&T and XO request that a supplemental RO&O be issues resolving the changes that must be made to the Qwest transport cost studies to bring those studies closer to TELRIC. This order should resolve the need to re-run the models using current pricing and installation, utilization, and expense factors that comply with TELRIC's least cost, most efficient network assumptions.

d. Multiplexing.

All parties agree that the RO&O has not addressed pricing for multiplexing. The Joint Intervenors proposed that Qwest's costs should be reduced in line with the reductions made in other Qwest proposals to account for the decreased cost of circuit equipment and overstated factors observed in other cost models.

B. Nonrecurring Charges.

1. In General.

The RO&O adopts the AT&T/WorldCom nonrecurring cost model for use in calculating nonrecurring charges. AT&T and XO believe that this order establishes all of the nonrecurring charges Qwest is entitled to recover. Qwest apparently intends to argue, however, that there are additional charges not calculated by the AT&T/WorldCom Model and that it should be permitted to recover these additional charges. For example, the AT&T/WorldCom Model provides for a DS1 loop installation charge of \$23.40. In contrast, Qwest has defined five different levels of DS-1 installation. Qwest apparently seeks now to recover additional charges beyond the basic installation fee.

The Joint Intervenor provided evidence that Qwest's additional proposed charges are unnecessary and should be rejected. There is no basis for accepting Qwest's position that the RO&O fails to address necessary nonrecurring charges.

2. Verification of Conduit Occupancy.

Qwest requested a fee of more than \$450 per manhole as a charge for field verification of conduit occupancy for determining whether sufficient space is available on a proposed conduit route where a CLEC seeks access to the conduit for its own fiber. The Joint Intervenor provided evidence that Qwest has records of conduit occupancy and that viewing those records that should be adequate to determine whether space is available. The RO&O recognizes that a TELRIC model should assume that Qwest has sufficient information available to verify conduit occupancy. *See* RO&O at 33. Nevertheless, the RO&O permits Qwest to charge an additional \$70.47 for field verification. This determination is inconsistent with the RO&O's own findings. Qwest should not be permitted to make an additional field verification charge.

3. Loop Conditioning.

As recognized by the RO&O, digital services will not function over a loop on which load coils and bridge taps have been installed. Typically, load coils and bridge taps are removed from an entire 24-loop pair binder group all at once rather than from individual pairs within the group. Qwest proposed a nonrecurring charge of \$652.83 for loop conditioning. Qwest contends that this charge represents the cost required for unloading an entire binder group. Nevertheless, it proposed to impose this charge even if a CLEC ordered only one pair within the group to be unloaded.

The Joint Intervenor provided evidence that load coils and bridge taps would not be placed in a forward-looking network. *See* Ex. AT&T/WorldCom 14 (Hydock Direct) at 21-23.

The Joint Intervenors presented further evidence that unloading costs may be recovered in part in the recurring rates for unbundled loops. For this reason, there is no basis for imposing a loop conditioning charge on CLECs. For example, Colorado does not permit Qwest to charge for loop conditioning on any loop under 18,000 feet. Oregon, Minnesota, Utah and New Mexico also do not permit loop conditioning charges.

The RO&O rejects Qwest's proposed conditioning charge as "significantly overstated." Nevertheless, the charge adopted by the RO&O will, in some circumstances, be even higher than that proposed by Qwest. The RO&O adopts a rate of \$40 per loop to remove load coils and bridge taps on loops under 18,000 feet. By expressing the rate on a per-loop basis, this means that a CLEC requesting deloading of an entire 24-loop binder group would pay \$652.83 under the Qwest proposal, but \$960 under the pricing adopted by the RO&O.

This discrepancy is even more difficult to understand when compared to the RO&O's pricing of loop conditioning on loops over 18,000 feet. For these loops, the RO&O adopts a \$70 charge per location, with a two dollar charge for each additional load coil or bridge tap removed at the same time in the same location. Assuming three locations for each loop, an assumption made by Qwest's own cost studies, this would result in a maximum charge for deloading a 24-pair binder group over 18,000 feet of \$348 (the first loop for the \$210 and the 23 additional loops at \$6 each or \$138), well below the \$960 charge for a binder group under 18,000 feet. The charge proposed by the RO&O, therefore, simply makes no economic sense.

The Joint Intervenors continue to recommend that no charge be permitted for loop conditioning. If the Commission tends to impose a charge, however, the AT&T and XO propose that the Commission should impose a \$40 per location charge for all loops, with a \$2.00 charge for each additional loop conditioned within the same binder cable. This adopts, for the most

part, the recommendations of Commission Staff, correcting those recommendations for the economic anomalies identified above.

IV. CONCLUSION

For the reasons set forth above, AT&T and XO request that the RO&O be modified to comply with TELRIC pricing principles and that a supplemental RO&O be issued to resolve outstanding issues with respect to unbundled element pricing.

Dated this 12th day of December, 2001.

AT&T COMMUNICATIONS OF THE MOUNTAIN STATES, INC.

By: Jan S. Burk for
Mary B. Tribby
Richard S. Wolters
1875 Lawrence Street, #1500
Denver, Colorado 80202
303-298-6741 Phone
303-298-6301 Facsimile
rwolters@att.com E-mail

Mary E. Steele
DAVIS WRIGHT TREMAINE LLP
1501 Fourth Avenue
2600 Century Square
Seattle, WA 98101-1688
206-628-7772
206-628-7699 (Facsimile)

Attorneys for AT&T of the Mountain States,
Inc. and XO Arizona, Inc.

CERTIFICATE OF SERVICE

I hereby certify that the original and 10 copies of Exceptions of AT&T of the Mountain States, Inc. and XO Arizona, Inc. to Phase II Recommended Opinion and Order, regarding Docket No. T-00000A-00-0194, were hand delivered this 12th day of December, 2001, to:

Arizona Corporation Commission
Docket Control – Utilities Division
1200 West Washington Street
Phoenix, AZ 85007

and that a copy of the foregoing was hand-delivered this 12th day of December, 2001 to the following:

Ernest Johnson
Director - Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Maureen Scott
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Lyn Farmer
Chief Hearing Officer
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Dwight D. Nodes
Administrative law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

and that a copy of the foregoing was sent via United States Mail, postage prepaid, on the 12th day of December, 2001 to the following:

Timothy Berg
Fennemore Craig, P.C.
3003 North Central Ave.
Suite 2600
Phoenix, AZ 85012
Attorneys for Qwest

Janet Livengood
Z-TEL Communications, Inc.
601 South Harbour Island
Suite 220
Tampa, Florida 33602
Attorneys for Z-Tel Communications, Inc.

Steve Sager, Esq.
McLeod USA Telecommunications
Service, Inc.
215 South State Street, 10th Floor
Salt Lake City, Utah 84111
Attorneys for McLeod USA

Ray Heyman
Roshka Heyman & DeWulf
400 North 5th Street
Suite 1000
Phoenix, AZ 85004
Attorneys for Alltel Communications

Michael W. Patten
Roscoe Heyman & DeWulf
400 North 5th Street
Suite 1000
Phoenix, AZ 85004
Attorneys for Cox, e-spire, McLeod USA,
Teligent, Z-Tel, MGC Communications

Dennis Ahlers
Echelon Telecom, Inc.
730 Second Avenue South
Suite 1200
Minneapolis, MN 55402
Attorneys for Echelon Telecom, Inc.

Thomas F. Dixon
WorldCom, Inc.
707 17th Street
Suite 3900
Denver, CO 80202
Attorneys for WorldCom

Darren S. Weingard
Stephen H. Kukta
Sprint Communications Co.
1850 Gateway Drive
7th Floor
San Mateo, CA 94404-2647
Attorneys for Sprint

Steven J. Duffy
Ridge & Isaacson, P.C.
3101 North Central Avenue
Suite 1090
Phoenix, AZ 85012-2638
Attorneys for Sprint

Penny Bewick
New Edge Networks
P.O. Box 5159
3000 Columbia House Blvd.
Vancouver, Washington 98668
Attorneys for New Edge

Marti Allbright, Esq.
MPOWER Communications Corporation
5711 South Benton Circle
Littleton, CO 80123
Attorneys for MGC Communications

Thomas H. Campbell
Lewis & Roca LLP
40 N. Central Avenue
Phoenix, AZ 85004
Attorneys for Rhythms Links, Inc., Time Warner,
WorldCom, Echelon Telecom, Allegiance

John Connors
WorldCom, Inc.
Law and Public Policy
707 17th Street, Suite 3600
Denver, CO 80202
Attorney for WorldCom

Eric Heath
Sprint Communications
100 Spear Street
Suite 930
San Francisco, CA
Attorneys for Sprint

Megan Doberneck, Senior Counsel
Nancy Mirabella, Paralegal
Covad Communications Company
4250 Burton Drive
Santa Clara, CA 95054
Attorney for Covad

Michael M. Grant
Gallagher and Kennedy
2575 E. Camelback Road
Phoenix, AZ 85016-9225
Attorneys for ELI, Covad, New Edge

Michael B. Hazzard
Kelley Drye and Warren
1200 19th Street, NW
Washington, DC 20036
Attorneys for Z-Tel Communications

Scott S. Wakefield
RUCO
2828 N. Central Avenue
Suite 1200
Phoenix, AZ 85004

Andrea Harris
Allegiance Telecom
2101 Webster
Suite 1580
Oakland, CA 94612

